2plan® wealth management

financial Newsletter

Edition 32 – Autumn 2019

What is the British Pound worth vs. Euro?

What is the British Pound worth vs. Dollar?

FTSE 100 Chart

KEY FACTS & FIGURES – The UK Economy		
Boe Base rate	0.75%	Aug 2019
Unemployment	3.80%	Aug 2019
Inflation (CPI)	1.90%	Aug 2019

Agenda

How does smoking affect life insurance?

Why you should get mortgage advice

Solving The Dementia Dilemma

Should you invest? Beware of the FOJI!

What happens to your pension pot when you die?

Diversifying our approach to downside protection

Public pessimistic on future of state pension provision

Spotlight on… selecting funds, the Architas approach

Base rate

The Bank of England Base Rate remains unchanged at 0.75%.

UK economic outlook

- UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.5% in Quarter 1 (Jan to Mar) 2019, unrevised from the first estimate for this quarter.
- The services sector provided the largest contribution to growth in the output approach to measuring GDP, while production also contributed positively, due largely to growth of 1.9% in manufacturing output.
- Household expenditure, government consumption and investment contributed positively to GDP growth in Quarter 1 2019, while net trade contributed negatively.

Inflation

- The Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.9% in June 2019, unchanged from May 2019.
- The largest downward contributions to change in the 12-month rate between August and June 2019 came from motor fuels, accommodation services and electricity, gas and other fuels, with prices in each category falling between August and June 2019 compared with price rises between the same two months a year ago.
- The largest offsetting upward contributions to change came from clothing and food.
- The Consumer Prices Index (CPI) 12-month rate was 2.0% in June 2019, unchanged from August 2019.

UK unemployment

- The UK employment rate was estimated at 76.0%, higher than a year earlier (75.6%); on the quarter, the rate was 0.1 percentage points lower, the first quarterly decrease since June to August 2018.
- The UK unemployment rate was estimated at 3.8%; it has not been lower since October to December 1974.
- The UK economic inactivity rate was estimated at 20.9%, lower than a year earlier (21.0%).
- Estimated annual growth in average weekly earnings for employees in Great Britain increased to 3.4% for total pay (including bonuses) and 3.6% for regular pay (excluding bonuses).
- In real terms (after adjusting for inflation), total pay is estimated to have increased by 1.4% compared with a year earlier, and regular pay is estimated to have increased by 1.7%.

How does smoking affect life insurance?

Can you get life insurance as a smoker? What if you've quit smoking? And what about smoking vs vaping? We've got the answers…

We know that smoking invites health concerns, and insurance companies know it too. Like your parents and your doctor, they see smoking as a significant health risk. But all is not lost – you can still get cover. And if you give up smoking (we'll come to that), not only will you be in better health (we'll come to that, too), but you'll probably pay quite a lot less for your life insurance. Here's how it works…

Can I get life insurance as a smoker?

Absolutely. In fact, many successful life insurance applications are made by smokers, so not only is it possible, it happens often. But there is a catch. Your smoker status will have an influence on an insurer's decision to offer you cover and will, in all likelihood, affect your premium (how much you pay for your cover). In a nutshell, if you are a smoker your premium is likely to be higher than a non-smoker. In fact a non-smoker could pay as little as half of what a smoker applying for the same cover would.

What happens when you give up smoking?

Who hasn't considered the benefits of not smoking? And what are the health benefits of quitting? Well, they're more considerable than you might think. In fact, according to the NHS, a smoker's excess risk of a heart attack reduces by half after only 12 months of being nicotine-free.

So what does quitting smoking mean for your life insurance premiums?

Well, despite your increased lung capacity, your insurance company may still consider you a smoker, for a while at least. Calculating your premium will likely depend on when you last had nicotine. Some insurers will reduce the premium after only 12 months as a non-smoker, but many will still charge you higher premiums for up to five years after you stop smoking or using nicotine. It really depends on your circumstances. And it's important to be honest about your past. The vast majority of life insurance claims are paid, but the minority that aren't are often declined due to withholding medical information, such as a history of smoking. So it pays to be completely upfront.

Is vaping the same as smoking when it comes to life insurance?

Most insurers consider vaping (as well as chewing nicotine gum or using a nicotine patch) to be the same as smoking. So the effect on premiums is likely to be the same. This could change in the future – the jury is still out on the long term effects of vaping – but, for now at least, insurers are proceeding with caution. Insurers may have different interpretations of what constitutes a smoker (or vaper), so it is always worth checking before you apply.

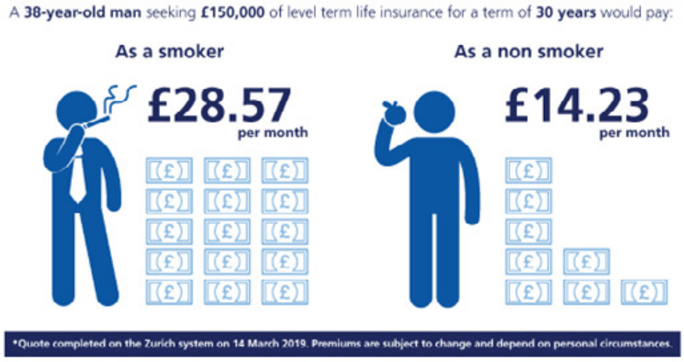
Life insurance with critical illness cover

Let's say you're a smoker on the look-out for some life insurance – perhaps because you're applying for a mortgage, for example. It might be worth considering critical illness cover, alongside life insurance, giving yourself one great big wall of protection. Critical illness works by providing financial support – in the form of a lump sum pay-out – following diagnosis of a serious illness, such as a stroke, cancer or a heart attack.

Anything else?

There's no getting away from it, if you're a smoker looking into getting life insurance, you may pay more for your cover. But all is not lost: you can still get covered and, if you want to give up smoking, quitting has (apparently) never been easier. A wealth of support and advice is available to help you be rid of the habit. And doing so can provide a healthy boost to your wallet. Find out more about Zurich life insurance and critical illness cover at *www.zurich.co.uk/life-insurance*

Author: Scott Sinclair
Content Manager, Zurich



Why you should get mortgage advice

Taking out a mortgage could be one of the biggest financial decisions you'll need to make in life, so it's important to get it right.

You could 'go direct' to find the right mortgage for your circumstances – as long as you're prepared to spend time and effort scouring a very competitive market for the lender and deal you feel most comfortable with.

You'll also need to consider things like lender administration and booking fees, the length and type of mortgage you need, valuation costs and repayment methods, all of which can affect the total cost of your loan. And you'll need to take out insurance; for buildings and contents and to protect your mortgage payments if you have to stop working.

Already have a mortgage but coming to the end of your deal?

Finding a new mortgage deal is a lot easier than getting your first mortgage. You don't have the stress of finding a home, working with estate agents, negotiating contracts or worrying about onward chains. When it comes to remortgaging you could choose to stay with your current lender, and they might offer you something tempting to stay with them, but you don't have to. Switching to a new lender may seem like hassle you don't need, but it's worth the effort as it could mean you get a better rate.

Whether you're staying with your current lender or moving to a new one, just as with your initial deal it can pay to get advice to help find the most suitable mortgage for your needs. That's where we come in.

The value of our advice

Your 2plan financial adviser will discuss your needs and future plans; whether you want to pay off your mortgage early or you're looking for lower monthly repayments. If applicable, they will look at your current deal and work out if there are any exit fees or early repayment charges. Your adviser will work with you to complete the relevant paperwork and liaise on your behalf with solicitors, valuers and surveyors. They can also talk you through the features and benefits of financial protection for your property and will stay in touch throughout the process – and into the future.

If you'd like more information, or you know somebody who is looking to purchase a new property and may benefit from mortgage advice, then please direct them to contact 2plan.

Your home may be repossessed if you do not keep up repayments on your mortgage.

Author: 2plan wealth management Ltd

Solving the dementia dilemma

Dementia isn't an inevitability in old age, according to latest research. Deepak Jobanputra at VitalityLife looks at what can be done in terms of prevention and protection.

The World Health Organisation (WHO) recently announced that there are ways to reduce the risk of dementia. After a comprehensive review of existing evidence, the WHO found that lifestyle factors such as poor nutrition, alcohol consumption, smoking and inactivity are increasing the chances of people getting the condition. This important announcement is a welcome reminder of what people can do to lower the chances of getting this life changing condition.

There are 850,000 people now living with dementia in the UK[1], and this figure is set to rise. It is therefore vital that prevention is made a priority and people are encouraged to do all they can to reduce the risks.

Exercise has been shown to be one of the key factors in cutting the chances of getting dementia. The WHO recommends that adults, including the elderly, should aim for at least 150 minutes of moderate intensity physical activity a week [2]. This is supported by recent Harvard Medical School research which showed that people who exercised more than three times a week were 34% less likely to be diagnosed with dementia than those who were less active [3].

However, despite this important evidence, levels of physical activity are actually declining in the UK. So what can be done to encourage people to be more active?

Technology can play a part in incentivising people to exercise. In 2018, Vitality collaborated on a study with Apple and RAND which aimed to understand how people could be encouraged to live healthier lives. The study found that people who engaged with Vitality's Apple Watch benefit saw an average 34% sustained increase in activity, equating to 4.8 extra days of activity per month. Data showed that activity increased across the full range of participants, regardless of age, gender or health status. This means that technology – in this case the effective use of wearables – to incentivise behaviour change can encourage people to become more active and so improve their health and wellbeing. This shift of focus to preventative care is significant for individuals, the insurance industry and wider society in terms of reducing the risk of getting conditions such as dementia.

However, prevention isn't the only consideration. One of the worst aspects of dementia is the wider implications it has for the sufferer's family. It's often they who, certainly initially, have responsibility for the care of their loved one. But who picks up the bill when that person doesn't have a family that can help, or they need more extensive care? This is a debate that continues to rage in political circles.

The government's social care green paper has been in the works for a while and is expected soon. Ahead of this, the Rt Hon Damian Green MP published a paper (Centre for Policy Studies, 2019) that looked in more detail at funding models and solutions to provide care for those suffering from age related conditions such as dementia. Some of the suggestions for funding that he put forward included a taxation model, equity release, using existing savings and a new form of insurance.

The challenge with most of these solutions is that they involve asking people to contribute towards conditions they may never get and they don't necessarily align with the realities of life. It's no secret that most people look at their short-term needs and don't have the time or the inclination to look too far ahead or consider the prospect of suffering from conditions like dementia in the future.

Vitality understands this challenge. So last year, in a world first, we updated our serious illness cover to reflect the growing need to protect people in line with life stage priorities, including an instant pay-out for a range of conditions associated with old age.

Our unique proposition, called *Dementia & FrailCare Cover*, provides people with the certainty that they will be covered for conditions like dementia, and that they and their family will have financial stability when they need it the most. And it's proven to be very popular, with around two thirds of people opting to include it within their insurance.

The insurance industry is just one sector that can help protect people financially and enable them to retain their dignity and independence in later life. Much is dependent on what the forthcoming green paper proposes and how long those proposals take to implement, but what is certain is that the dementia dilemma isn't going away. In fact, it's likely to get much worse. Around 1 million people in the UK will have dementia by 2025, increasing to 2 million by 2050[4]. This will cost £66bn – over half the current NHS budget [5]. This means the country will also need about 1.7 million informal carers by that time, more than double the estimated number of people currently providing care [6]. These alarming statistics should provide the wake-up call we need to find solutions as soon as possible.

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July 2019. This article's view is based on the law, practices and conditions as at the day of publication. While we have made every effort to ensure they are accurate, we accept no responsibility for our interpretation or any future changes.

[1] *https://www.alzheimers.org.uk/about-us/news-and-media/facts-media Accessed Aug 2019*

[2] *World Health Organisation, Risk reduction of cognitive decline and dementia: https://www.who.int/mental_health/neurology/dementia/guidelines_risk_reduction/en/ 2019*

[3] *Harvard Medical School, A Guide to Cognitive Fitness:https://www.health.harvard.edu/mind-and-mood/a-guide-to-cognitive-fitness 2017*

[4] *Alzheimer's Research UK, Prevalence by age in the UK, 2018.*

[5] *https://www.dementiastatistics.org/statistics/cost-by-sector-in-the-uk/ Accessed Aug 2019*

[6] *https://www.alzheimersresearchuk.org/wp-content/uploads/2015/01/OHE-report-Full.pdf June 2014*

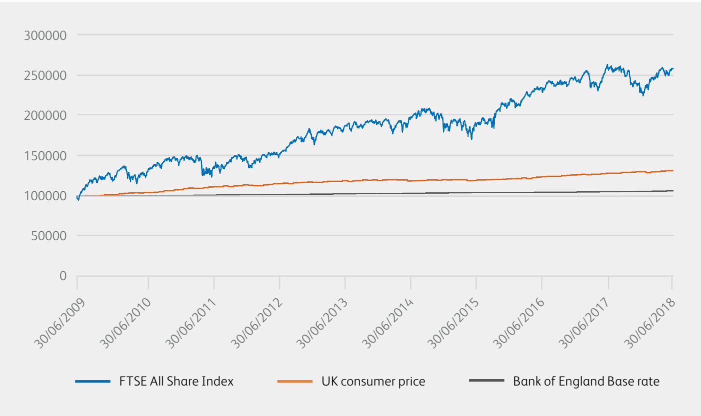
Should you invest?

Beware of the FOJI!

Investors remain cautious and according to Simon Evan-Cook, Senior Investment Manager for Premier's multi-asset funds, we've had a decade of FOJI (Fear of Joining In). In this article, he considers the dilemma still facing investors; whether to invest now.

Since 2009, being a FOJI victim has been a costly experience: £100k stashed in a savings account for the last decade has grown to £105k (assuming it earned the UK base rate). With inflation higher than the base rate for most of that time, they are now poorer in real terms than they were in 2009. But if they'd put it into the UK stock market, potentially they'd now have something in the region of £267k.

Investing (or not) ten years ago: the results



Now, you should – rightly – be sceptical of such numbers. Travelling back ten years returns us to the end of the financial crisis. This is as close as we've been to a closing-down, all-stock-must-go equity sale in living memory. So it's not surprising returns look good from then.

Many would-be investors look back wistfully: "If it fell that low again," they say "I'd definitely be a buyer". Neatly forgetting, of course, that when it fell that low last time, they stayed out because it was too scary. But rest assured, if it fell that low again it would be similarly terrifying.

Perhaps then, we should compare today's should-I-or-shouldn't-I investment dilemma to 2007: a time when years of good returns projected an enticing scene onto the rear-view mirror, but investors were (rightly) uneasy that they'd be joining the picnic a little too late. What fate befell those that did that?

Well, assuming they bought in and stayed put (admittedly a big assumption), they too would have been better off than those who stayed in cash. Put another way, if Peter put his £100k into UK equities at the very peak of that cycle (31st October 2007), the day before the UK market embarked on a 17-month, 46% slump, he'd still be better off today than Pauline, who left her money in a bank account paying the heady (but soon-to-be-slashed) base rate of 5.75%.

And by quite a long way too: Peter would now have £180k, while Pauline has only £111k (and note that, because of inflation, her £111k would buy her less today than £100k would have bought in 2007. Peter, in contrast, is wealthier, even after inflation).

About us

We are a UK retail asset management group with a focus on providing good long-term investment outcomes for investors. The following are examples of some of our multi-asset, multi-manager funds:

Premier Multi-Asset Distribution Fund

The fund aims to provide an income every three months, that increases over time, with the potential to also grow the value of your original investment.

Premier Multi-Asset Growth & Income Fund

Although the main focus of this fund is to grow the value of your original investment, the fund also pays an income every six months.

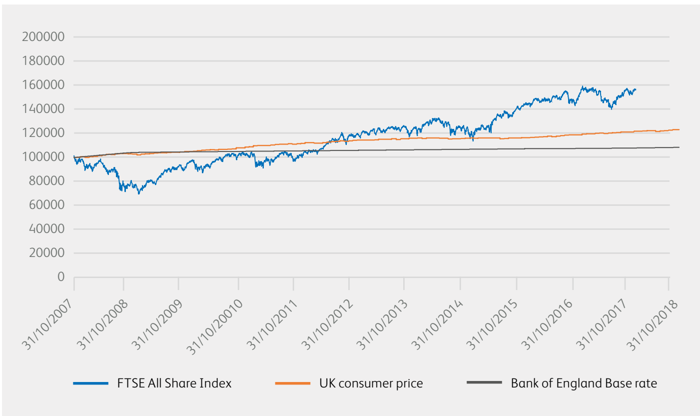
Both of the funds invest in a portfolio of other funds and investments, managed by carefully selected specialist investment managers.

Please note there is no guarantee the funds' investment objectives will be achieved and the income is not guaranteed.

When you invest, your money is at risk because the value of investments, and any income from it, can go down as well as up and you could get back less than you invested.

For more information about the funds, please visit *www.premierfunds.co.uk*

Investing at the peak of the last market cycle (or not): the results



As with most things market, these decisions are complicated by a cocktail of behavioural biases. 'Recency Bias' is one of these, being our instinct to believe the near future will look like the recent past. So investors who witnessed a rocketing market collapse in 2007 have been waiting for the same thing to happen again.

Our outsize hatred of regret is also a factor. Studies show humans will instinctively pay much more to avoid making a decision that has a regrettable outcome than we'd pay to experience a bigger positive result. They are, as a result, often unwilling to invest at almost any point of the market's journey.

Knowing all of this doesn't make today's decision any less tricky of course. So what should investors do? Naturally, everyone's circumstances are different, so there are no catch-all answers. (A 12-year time horizon, for example allows plenty of time to recover from the odd sell-off or two; 12 months doesn't).

Most useful, of course, would be an ability to predict the future. Sadly I know I can't do this. Also sadly, I know no-one else can either, but there are plenty out there who think they can. By all means pass them a couple of quid at a fairground for a bit of laugh, but you should otherwise keep your money well away from such fantasists.

All you can do is look at the facts today. You may well decide that it still looks too risky to invest and, if you're the kind of person who will panic in a sell-off, staying out may still be right for you. But in a world where inflation is higher than savings rates, taking no risk is risky too - as recent FOJI victims will attest. So as well as understanding how you'd feel if the market drops sharply in the next 12 months, you should also consider how you'd feel if it rises for the next 12 years while your cash dwindles away: From here, either scenario is possible.

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Senior Investment Manager, Premier Asset Management

This document has been produced for information purposes only and does not constitute advice. If any of the information contained in this document is unclear, we recommend you consult with an authorised financial adviser. Persons who do not have professional experience in matters relating to investments should speak with a financial adviser before making an investment decision. For your protection, calls may be monitored and recorded for training and quality assurance purposes.

When you invest, your money is at risk because the value of investments, and any income from it, can go down as well as up and you could get back less than you invested.

Chart source: FE Analytics. Chart 1: 30.06.2009 to 30.06.2019, and chart 2: 31.10.2007 to 30.06.2019, taken on a bid to bid, total return (income reinvested) UK sterling basis. Past performance is not a guide to future returns.

Before investing, please read the Prospectus, Key Investor Information Document and Supplementary Information Document for the Premier Multi-Asset Distribution Fund and the Premier Multi-Asset Growth & Income Fund. These documents contain important information that you should consider before investing, such as the fees you will pay and specific investment risks.

Issued by Premier Asset Management, which is the marketing name used to describe the group of companies, including Premier Portfolio Managers Limited and Premier Fund Managers Limited, that are authorised and regulated by the Financial Conduct Authority.

What happens to your pension pot when you die?

Your pensions could well be some of your most valuable assets. They should therefore be considered carefully when thinking about what to leave to loved ones. Unlike other assets you might hold – like property or other savings – pensions are subject to their own rules when passing them on following your death. The rules also differ depending on the type of pension you have. I've summarised the main points for consideration below, however your 2plan adviser can talk to you about the specific rules that apply to your own pension(s), to ensure you make the correct financial planning decisions when considering the future.

There are 2 main types of pension:

Defined contribution pensions

These are the pensions that you pay into over your working life. They could be private pensions, including self-invested personal pensions (SIPPs) or workplace schemes where your employer contributes as well. They are sometimes known as "money purchase" pensions.

Following changes made in 2015, the tax rules on death for these types of pension are now quite generous. This has resulted in more and more people using these pensions to maximise how much they can potentially pass on to their beneficiaries.

The first thing to mention is that the money within your pension doesn't normally form part of your estate on death, so no inheritance tax is due when it's paid out. If, however, you have already started accessing your money, anything that you have withdrawn, including the potential 25% that is available to you tax free, would fall inside your estate and therefore be liable for inheritance tax.

While the trustees appointed by the pension scheme have discretion over who the recipients will be, you can indicate who you would like to benefit in the event of your death. You should therefore complete an "Expression of Wish" form for any defined contribution pensions you hold for the Scheme Trustees to take your wishes into consideration. It is important to continually review your "Expression of Wish" in conjunction with your adviser, so it remains in line with any change in your personal circumstances.

Following your death, your beneficiaries can withdraw some or all the money remaining in your pension pot or take an income as if it were their own pension. They don't have to be of pension age to benefit from the money. However, whether they are taxed on what they receive from your pension, depends on your age at the time of death.

If you die before the age of 75, they won't have to pay tax on anything they receive from your defined contribution pension, if the fund is passed on within two years of your death. This assumes that you're within your own "lifetime allowance" for pension savings – currently £1,055,000 for most people – when you die. If not, then a charge may apply before the money is passed on.

If death occurs after age 75, the money withdrawn is liable to income tax at the recipient's marginal rate. This can limit their options because, to avoid an abnormally high tax bill, they may wish to take the money in small chunks, so their income doesn't go above the higher-rate thresholds in any one tax year.

Defined benefit pensions

These are occupational plans that entitle you to a retirement income for life, typically based on your years of service at a company. Some are referred to as "final salary" schemes. Unlike defined contribution pensions, there is no pot of money but rather a promise to one day pay you an income.

Payments following your death depend on the terms of the pension scheme. If you were still employed by the company and so still building up your pension, payments are typically limited to your spouse (or civil partner) and financial dependants, which usually means children living at home under the age of 18 (or 23 if they are in full-time education). If you die once you've started to take an income from the pension, some of it may continue to be paid to your spouse or dependants, depending on the scheme's rules. All payments following death should be free of inheritance tax, if the trustees have discretion over the beneficiaries.

The tax rules relating to your beneficiaries differ to those for defined contribution pensions. Once you have begun to draw from a defined benefit pension, the payments following your death are usually taxed at the recipient's rate of income tax. This contrasts to the tax-free options for defined contribution schemes. Lump sum payments, which are usually paid if you die before retiring, are paid tax free though, if you die before age 75.

Of course, taxation is rarely straightforward, and pensions can be complicated. You should therefore always consult your 2plan adviser before making any decisions about pensions and tax – their expertise can really be invaluable to make sure your pension pots are passed to your beneficiaries as tax efficiently as possible and generally when planning for the future.

Author: Lesley Davidson
Associate Director, FundsNetwork

Important information

When making decisions about investing, we recommend that you always consult your adviser. As you will be aware, they work with you to understand your needs, offering comprehensive expert advice to help you achieve your long-term goals. We only give information about our products and services and do not provide investment advice. The value of investments can go down as well as up, so you may not get back the amount you invest. Tax treatment depends on individual circumstances and all tax rules may change in the future. Withdrawals from a pension product will not normally be possible until you reach age 55.

Diversifying our approach to downside protection

As we start the second half of the year, we have seen equity and bond markets continue to disagree on what the rest of 2019 will hold. US equities continue to touch all-time highs and appear willing to overlook past trade tensions, focusing instead on major central banks' dovishness. We see a great deal of good news priced into equity markets. Defensive assets have also performed well and are indicating much more pessimism on the path for growth from here. Lower interest rate expectations have driven US government bond yields sharply lower and European government bond yields even further into negative territory.

With markets continuing to send mixed signals, we maintain our focus on downside protection and earning income according to the fund's objectives. There is now over $12 trillion in negative yielding bonds across major developed markets like Europe and Japan, which has investors reaching for yield by allocating further up the risk spectrum. In this challenging environment, we believe that the best way of ensuring we continue to deliver on our objectives is our highly flexible asset allocation, which seeks relative value opportunities across regions and the capital structure. This global approach, supported by the breadth of skilled fundamental analysts across Fidelity, is a key competitive advantage.

In addition to allocating to traditional defensive assets, like the Japanese Yen or US Treasuries, a tool that we often use for increasing defensiveness is employing equity hedges through the use of futures. During the volatile fourth quarter of 2018, our equity hedges were a key source of downside protection. In terms of hedges currently in place in the fund, we maintain our US and UK equity market hedges, and have added back to the European equity market hedges after a strong run year to date.

These examples of how we use hedges to pare back exposures to specific risks, while still being exposed to broader markets, is indicative of our approach to downside protection in what is a challenging market environment. At a time when major markets are sending conflicting signals, we are not throwing in our lot with either the bulls or bears, but are tactically adjusting the portfolio to ensure we are prepared for any eventuality.

Eugene Philalithis,
Portfolio Manager, Fidelity Multi Asset Income range

Important information

The value of investments and the income from them can go down as well as up so you may get back less than you invest Past performance is not a reliable indicator of future returns. Investors should note that the views expressed may no longer be current and may have already been acted upon. The Fidelity Multi Asset funds use financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to an authorised Financial Adviser. These funds take their annual management charge and expenses from capital and not from the income generated by the fund. This means that any capital growth in the fund will be reduced by the charge. The capital may reduce over time if the fund's growth does not compensate for it. Investments in overseas markets, changes in currency exchange rates may affect the value of an investment. The value of bonds is influenced by movements in interest rates and bond yields. If interest rates and so bond yields rise, bond prices tend to fall, and vice versa. The price of bonds with a longer lifetime until maturity is generally more sensitive to interest rate movements than those with a shorter lifetime to maturity. The risk of default is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may therefore vary between different government issuers as well as between different corporate issuers. Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of the fund investing in them. Investments in small and emerging markets can be more volatile than other more developed markets. Investments should be made on the basis of the current prospectus, which is available along with the Key Investor Information Document, current annual and semi-annual reports free of charge on request by calling 0800 368 1732. Issued by Financial Administration Services Limited, authorised and regulated by the Financial Conduct Authority. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. UKM0819/24701/SSO/NA

Public pessimistic on future of state pension provision

- Expectation that state pension age will go up to 70
- Many believe state pension either won't exist or will be a relatively small amount when they retire
- All age groups think that the state pension's value will go down (in today's money terms)
- And many think they'll put in more than they get out

The UK public anticipates a meagre state pension and expects another hike in the retirement age, according to recent research.

The findings come from a survey asking people's views on the state pension and what they think they are likely to get when they reach state pension age. It reveals, on average, that people in all age groups from 18 to 55 think the state pension age will be 70 by the time they are eligible to claim it.

This comes just as the state pension age for men and women is equalised to age 65, with further planned hikes to 68 over the coming years. Government estimates suggest that a retirement age of 70 might be on the cards for younger workers.

Surprisingly, that sense of pessimism also extends to how much people think the state pension will be worth by the time they claim it. Although recent governments have been wary of being seen as giving pensioners a poor deal, people think priorities are likely to shift. Most dramatically, 14% think the state pension won't exist by the time they retire – going up to 20% of 18-24 year olds.

Even among those who think the state pension is likely to still be available when they retire, many think it will change. Just under 32% think it will still exist but will only provide negligible income, while just over 21% think it will be means tested. Just under a quarter think it will still exist largely unchanged.

Andrew Tully, technical director at Canada Life UK, said:

"While people broadly think the state pension will still exist in some form when they retire, it's striking how many people, especially younger generations, have little confidence it will be there at all by the time they retire.

Some might say it is unrealistic to expect state pension provision to remain static given we are living longer and working longer. Our research suggests people are being pretty pragmatic and are not banking on the state pension to support them in retirement."

Despite the 'triple lock' guaranteeing annual increases in its value, on average UK adults who are not yet retired expect to receive a state pension of £150 per week when they retire (in today's money terms) – below the current full pension of £164 a week. Men are a little more optimistic, saying they expect to receive £161 per week, but women are more cautious, saying they anticipate a £143 weekly pension when they retire. Only 20% expect a state pension of more than £200 a week. Younger generations in particular don't seem to think the state pension will provide much for them. On average 18-24 year olds expect the state pension will make up around 27% of their retirement income, compared with an average of 42% among other age groups.

The research also revealed a split on how fair people feel the current system is. A narrow majority think the state pension isn't fair given how much they have paid in tax and National Insurance contributions (53%). Strikingly, almost two thirds of people (65%) think they will put in more than they get out, although three in ten (30%) of these still believe the current state pension is fair.

Andrew Tully, explains:

"People appear to be 'pricing in' low expectations of the state pension that will be waiting for them when they retire, most likely because they see successive governments continually moving the goal posts, often with good reason.

The success of auto enrolment will hopefully begin to bridge the retirement savings gap, as people take control and appear to be moving away from a reliance on state provision. After all, private pension savings are one of the best protections against whatever decisions future governments may take on state provision."

State pension tips

- Go online or contact DWP for an up-to-date state pension forecast. DWP will use your NI record under old and new state pension rules to calculate your state pension
- Your 'starting amount' can be less than, more than or equal to the new full state pension
- Consider paying voluntary NI contributions if there are gaps in your records (you can only usually go back six years)
- There is no benefit in paying voluntary NI contributions if you've built up 30 years under the old system before April 2016
- Ensure you've claimed credits for periods where you've not worked, for example when unemployed or looking after children. This should happen automatically but mistakes can and do happen, especially if you are self-employed
- You can claim for NI credits if you are caring for parents or grandchildren
- If you've been contracted out for any period before April 2016 you will have paid lower NI and therefore receive a smaller state pension. Your private pension will have an element of 'Contracted Out Pension Equivalent' or COPE which will allow for this
- Consider deferring your state pension (but it is less financially generous than previously)
- Contact The Pensions Advisory Service or Pensions Wise for free guidance

Author: Andrew Tully
Technical Director, Canada Life

Spotlight on… selecting funds, the Architas approach

News stories about investors being unable to withdraw from funds, due to them holding assets that are hard to trade, have highlighted the need for having a rigorous process when selecting funds.

At Architas, we pride ourselves on our robust processes that can help avoid unsuitable investments. We deliberately set a high bar for fund selection because we only want to hold those we've identified as the very best.

Woodford woes

Many investors watched with concern the downturn of Neil Woodford's Equity Income Fund. Woodford, whose long and successful track record created huge investor interest, was compelled to stop investors making withdrawals from his fund. He did so to give himself time to sell some relatively illiquid private equity assets and purchase assets that are easier to trade.

Such headline-grabbing stories can arouse fears among investors that they might end up trapped in underperforming funds. This is a particular risk with funds that invest in relatively illiquid assets, such as private equity and property.

Our selection processes have been designed to give to provide give investors in Architas funds the reassurance that every fund we hold on their behalf has been thoroughly researched, reviewed and analysed before being chosen. Moreover, funds are monitored continuously, to ensure they remain suitable and attractive.

Here are our five key factors we believe can help us find them and make sure they remain suitable.

1. Well-resourced investment team

Architas has a large investment team, in which each analyst has specialist expertise in a particular investment area, such as UK equities. Portfolio managers can only buy funds recommended by analysts which have then been formally approved by the senior members of the team.

2. Rigorous fund scoring

There are three key elements to our fund analysis:

- People
- Process
- Performance

By scoring using these elements, it gives us a common language for analysing funds across the board.

3. Thorough vetting process

Each analyst uses data analysis to help form their views, combined with other inputs such as interviews with the managers of the funds. Analysts present funds for approval to the entire investment team, who then quiz them about how a fund might meet particular objectives.

4. Strict fund monitoring system

We have a disciplined monitoring regime, with rules in place to ensure we stay on top of developments in the funds we invest in. Underperformance can often be the first indicator of problems in a fund. Any fund that triggers our underperformance warning signals must be resubmitted for approval. A decision is then made about whether to keep the fund on the recommended list.

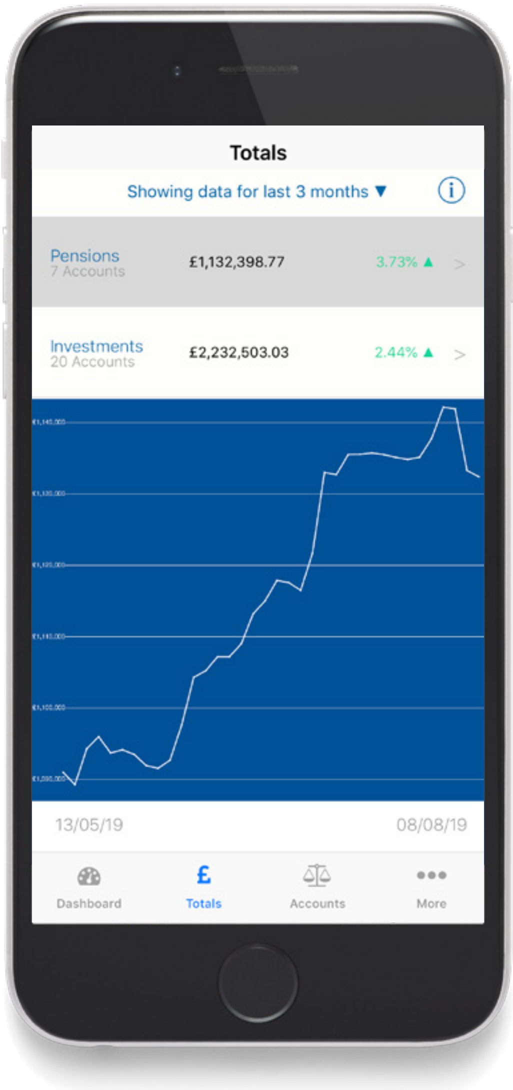
5. Detailed operational due diligence team

Our dedicated in-house team analyse the operational and practical aspects of investment funds, something we place a great deal of importance on.

These processes help us in our aim of selecting funds we believe have the best potential. While this doesn't mean we'll get it right 100% of the time, our screening methods can give investors the reassurance that the funds they are exposed to have been thoroughly vetted.

Another way to avoid being heavily exposed to an underperforming fund is to be diversified across many funds, something we offer through our fund of funds. It's also important to be invested for the long term, to ride out the peaks and troughs funds can sometimes go through.

Author: Sheldon Macdonald
Chief Deputy Investment Officer, Architas



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If you would like to discuss any of these topics in more detail, please feel free to contact me to make an appointment. If you have friends, family members or colleagues who you think would be interested in these topics, please pass this newsletter to them.

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